

**Department of Labor  
For the Year Ended  
June 30, 1998**

***Arthur A. Hayes, Jr., CPA***  
Director

***Charles K. Bridges, CPA***  
Assistant Director

***Ronald E. Anderson, CPA***  
Audit Manager

***Kimberly White***  
In-Charge Auditor

***Alan Baker***  
***Blayne Clements***  
Staff Auditors

***Anu Matukumalli***  
Editor

February 11, 1999

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable Michael E. Magill, Commissioner  
Department of Labor  
710 James Robertson Parkway, Andrew Johnson Tower  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Labor for the year ended June 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Labor's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Labor is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Labor's management in a separate letter.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/ms  
99/019

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

**Department of Labor**

For the Year Ended June 30, 1998

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## AUDIT SCOPE

We have audited the Department of Labor for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of federal compliance with the Job Training Partnership Act, accounts receivable in the TOSHA division, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## AUDIT FINDINGS

The audit report contains no findings.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report  
Department of Labor  
For the Year Ended June 30, 1998**

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# **Department of Labor For the Year Ended June 30, 1998**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of Labor. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The General Assembly created the Department of Labor in 1919 to supervise workshops and factories and enforce the laws regulating them. Since 1972, the department’s scope has expanded to include seven divisions.

1. The Division of Administration coordinates the activities of the other divisions; prepares financial budgets and work programs; and provides for the department’s legal, fiscal, personnel, and procurement needs.
2. The Division of Occupational Safety and Health (more commonly known as the Tennessee Occupational Safety and Health Act [TOSHA] division) is responsible for ensuring safe and healthful on the job conditions for every worker in the State of Tennessee. The division has three primary functions: to train and educate employers and employees in occupational health and safety, to perform inspections throughout the state to ensure that Tennessee’s occupational safety and health standards are followed, and to administer and enforce the Hazardous Chemical Right-to-Know Law.
3. The court-administered Tennessee Workers’ Compensation Law operates under the Division of Workers’ Compensation. This division’s primary duties are to inform, advise, and assist workers regarding their rights under the law and to administer the Workers’ Compensation Second Injury Fund. The division is also responsible for the administration of the Workers’ Compensation Reform Act.

4. The Division of Mines trains miners, mine owners, and operates and coordinates state rescue efforts in the event of a mine disaster. The division maintains two mine rescue teams and also licenses underground and strip mines.
5. The Division of Boilers and Elevators is responsible for the administration and the enforcement of the Tennessee Boiler and Pressure Vessel Inspection Law and the Tennessee Elevator Inspection Law.
6. The Division of Labor Standards is charged with enforcing the Tennessee Child Labor Act, the Prevailing Wage Act, the Equal Pay Act, and the Wage Earners' Protection Act. The Research and Statistics Office, which compiles data on work-related injuries, operates under this division but reports directly to the assistant commissioner. The division's Employee Assistant Professionals (EAP) unit certifies and issues licenses to persons who practice employee assistance counseling at worksites. The EAP also enforces rules and regulations established by the unit.
7. The Division of Employment and Training is responsible for the administration of the Job Training Partnership Act of 1982 as amended. This division coordinates programs to prepare youth and unskilled adults for entry into the labor force and to provide job training for economically disadvantaged individuals facing serious barriers to employment. This division also administers grants under the Job Opportunities and Basic Skills (JOBS) program. The Department of Human Services, the grantee, has subcontracted with the Department of Labor to administer the program, which is available to persons receiving Aid to Families with Dependent Children (AFDC) payments. The program provides support services and job training.

An organization chart of the department is on the following page.

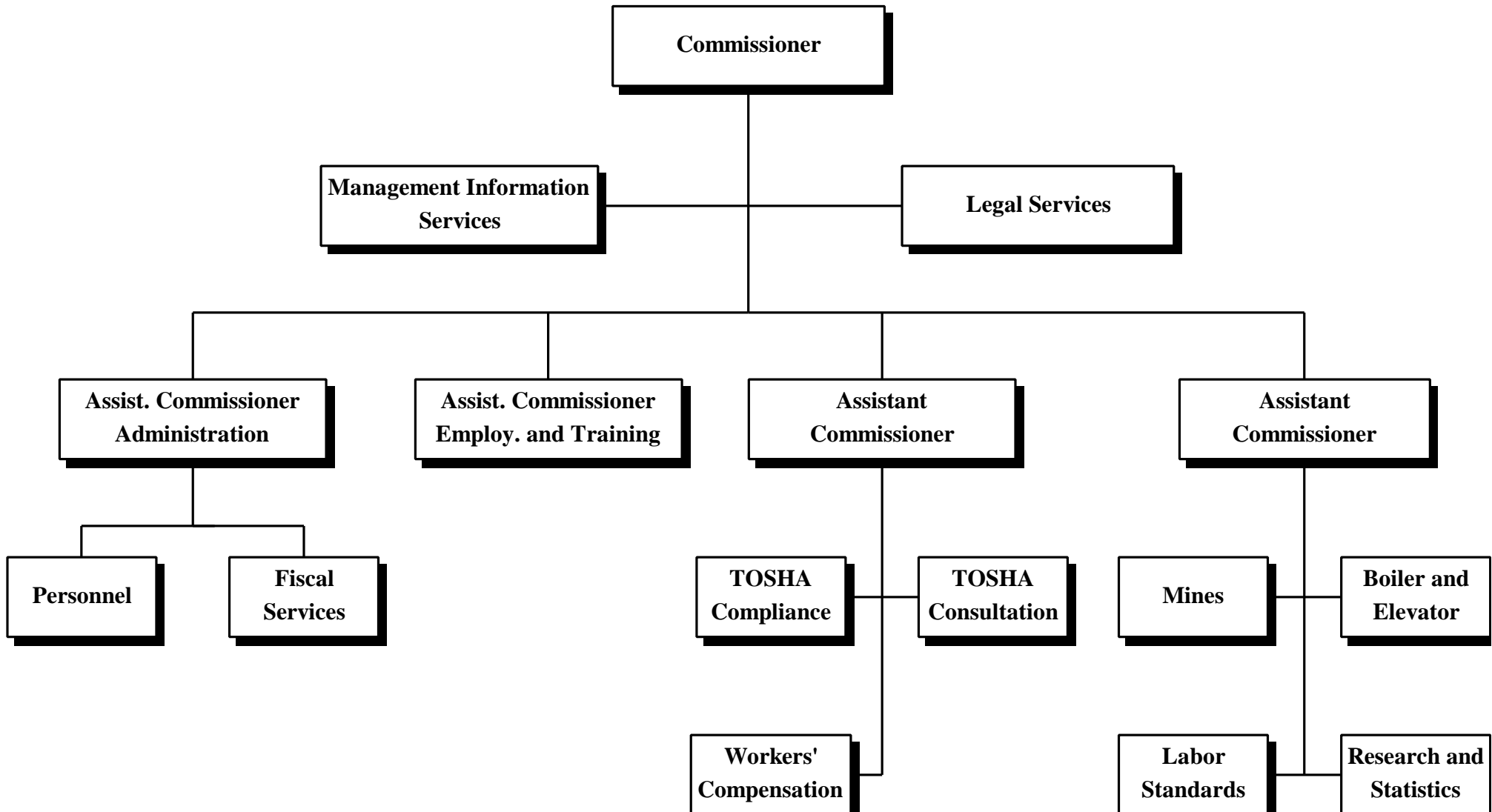
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## AUDIT SCOPE

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We have audited the Department of Labor for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of Accounts Receivable in the Tennessee Occupational Safety and Health Act Division, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted

**DEPARTMENT OF LABOR  
ORGANZIATIONAL CHART**



auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

Our audit of the Department of Labor is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Labor is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

In accordance with the provisions of the Single Audit Act Amendments of 1996, the Office of Management and Budget has grouped the Job Training Partnership Act and the Employment and Training Assistance–Dislocated Workers programs to form a cluster of programs for the purposes of determining major federal programs. We determined that this cluster of programs within the Department of Labor was material to the CAFR and to the Single Audit Report.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to this one major federal award program cluster, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. In addition, we performed analytical procedures to determine if the department has sufficient controls to ensure the federal program cluster is administered in accordance with the basic laws and regulations governing it.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. The

opinion on the financial statements is qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. The Tennessee Single Audit Report for the year ended June 30, 1998, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We had no findings related to the federal program cluster.

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## **TOSHA ACCOUNTS RECEIVABLE**

Our objectives in the review of the controls over accounts receivable for the Division of Occupational Safety and Health Act (TOSHA) were to determine whether

- accounts receivable duties were adequately segregated;
- reconciliation procedures were in place between the cash-receipting functions performed by the TOSHA Division and the cash-deposit functions performed by the fiscal office;
- the division's computer system could properly compute the interest and penalties due on fines over 30 days old; and
- written collection procedures were implemented by the division.

We interviewed key departmental personnel to gain an understanding of the division's accounts receivable procedures. We also reviewed supporting documentation of accounts receivable transactions.

We found that the controls were in place in the division, duties were adequately segregated, receipting and reconciliation functions were operating properly, the division's computer system properly computed the interest and penalties due on fines over 30 days old, and the division had established written collection procedures.

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## **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. No material discrepancies were noted.

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Labor filed its report with the Department of Audit on September 15, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

### RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Labor has corrected the previous audit finding concerning the computation of penalties and interest to overdue fines in the Division of Occupational Safety and Health Act (TOSHA), and the improper authorization of waived penalties.

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## OBSERVATIONS AND COMMENTS

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### TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title

VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1998, the Department of Labor filed its compliance report and implementation plan on August 7, 1998.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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### DIVISIONS AND ALLOTMENT CODES

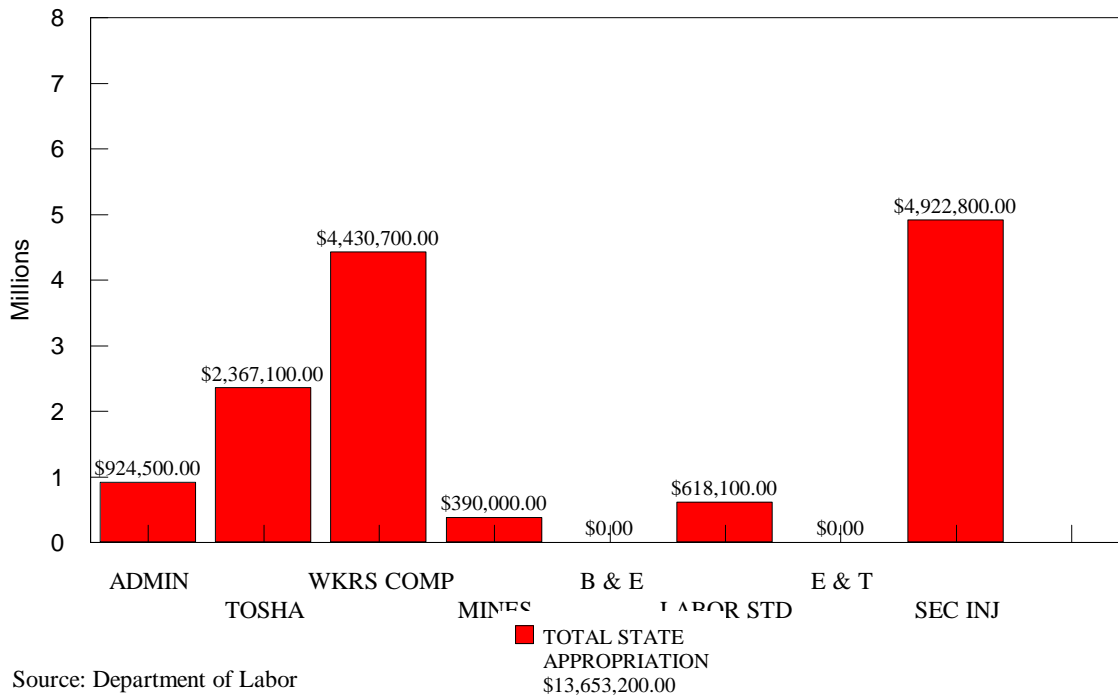
Department of Labor divisions and allotment codes:

337.01	Division of Administration			
337.02	Division of Occupational Safety and Health			
337.03	Division of Workers' Compensation			
337.04	Division of Mines			
337.05	Division of Boilers and Elevators			
337.06	Division of Labor Standards			
337.07	Division of Employment and Training			
337.08	Second	Injury	Compensation	Fund

## DEPARTMENT OF LABOR

State Appropriation by Division

For the Year Ended June 30, 1998



## DEPARTMENT OF LABOR

Employee Representation by Division

For the Year Ended June 30, 1998

